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TAXES AND THE REPUBLIC

by Edna Lonigan

When the first session of the Eightieth Congress recessed, in late July, one important task before it was left unfulfilled.

The effort to reduce expenditures was largely nullified by administrative pressure groups, and the attempt to reduce taxes was frustrated by the President's undemocratic repudiation of Congressional control over the public purse.

The issue raised by the President's two vetoes of tax legislation is not taxes. It is liberty.

Taxes are the touchstone of our ability to return to a free society. No nation can remain free if its central government in peacetime takes 20 per cent of the people's substance. With that income the executive power will control the rest. Business, education, science -- all will come to the government with a tin cup in hand.

When, in addition, the government gets this income by inflating the money supply and debasing the means of reckoning value, the nation's productive powers are injured. Soon its economic well-being, like its freedom, is likely to live only in the memory of glories lost.

This is not a political issue, which might properly divide men of good will. The issue is the survival or death of the Republic.

If the United States from now on continues to follow such reckless financial policies as those pursued by Germany and France after 1918, we also shall waste our resources, lower our standard of living, and undermine our liberty. The resulting chaos could be helpful only to a "Leader" of the Hitler type. Already we have the shadow of de Gaulle in France and, in Britain, growing criticism of Attlee, by his followers, for his lack of "force."

Andrew D. White in his classic study of "Fiat Money Inflation in France," tells the most timely story of how the French deputies in the Revolutionary Estates General gradually deluded themselves into believing in printing-press money, a psychological parallel to what is happening here today.

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The program, introduced in 1789, called for "assignats" or paper currency based on the lands which had been seized from the clergy and later from the King. The assignats looked sound but leading deputies warned their colleagues not to embark on the enchanted voyage to destruction. The Mississippi Bubble was a recent memory, and many could remember the tragic awakening from that lighthearted adventure. One deputy held up a piece of the old paper currency and said that it was stained with the blood and tears of their fathers. They were reminded that when the earlier bubble burst in 1720, no one suffered so cruelly as the poor.

At first the deputies rejected the plan for an issue of fiat money. When they voted the first issue of "assignats" they solemnly pledged that it would be the last. Doubters who said notes would be printed again and again, till they became worthless, were rebuked -- the people were now in control and would check reckless excesses.

The first issue of 400 million francs was soon followed by a second and larger one, until 45 billion paper francs had been put into circulation. Price control of wheat and other commodities was adopted to conceal the symptoms of inflation. Six years in prison was the penalty for those who dealt in assignats at rates below the fixed price. Soon the penalty was set at 20 years and then at death. To no avail. The assignats became worthless, and in the financial chaos that ensued the Republic gave way to the dictatorship of Napoleon.

Curiously, with each new issue of paper money, opposition declined. Deputies who had strained at the first small printing swallowed the last and worst, reviling those who stood firm. Dr. White shows that the worst evil of inflation is not inflated money so much as inflated minds. Debasement of the standard of economic value, terrible as it is, is not so terrible as debasement of the standard of thought.

We should know better than the French deputies of 1795. More of us understand that money itself is not wealth, but merely a medium of exchange. Our recollection of destruction of the middle class in Germany by governmental inflation after the last war, is more vivid than memory of John Law's bubble would have been to the States General. And we can see in retrospect the long shadows of Napoleons and Hitlers, rising to power on the human wreckage left by inflation -- Leaders who take over Republics, when monetary follies have done their worst.

We have those tragedies for our enlightment if we wish to use them. But the voices that were raised in this country against the first steps to inflation are almost silent now. There is no more warning of the lurking danger than there was in the humming cities of Germany before their bubble burst.

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Americans are confused about their gigantic inflation, because a veil of secrecy hangs over our government's monetary policy, and because inflation always appears in "new" forms.

The original Federal Reserve Act gave us a monetary system which responded closely to production, because the Reserve banks could issue money only on agricultural or commercial loans. Two wars have destroyed the relationship between money and production, which is wealth.

In 1918, McAdoo persuaded the commercial banks to lend on government bonds, and thereby laid the mine of credit inflation which exploded in 1929. In 1932, Congress might have reformed our banking system. Actually, under pressure from the debtor sections, it was made legal for the Reserve banks to issue paper money backed by government borrowing instead of by any form of productive work. Soon the banks were allowed to use bonds as their "reserve," on which they based their credit expansion.

No one seemed to realize that we had created a central bank for the financing of governmental instead of productive needs.

When the New Dealers set out to enlarge the powers of the Federal Government, they therefore found the door to the treasure vaults open. All the potential credit expansion of the American banking system was in their hands.

They added a few refinements. The President took over all the gold in the country and put gold "certificates" into the banking system in place of the precious metal. The Administration bought all the gold Russia and Africa would sell, and put more gold "certificates" in the banks as a base for still more credit expansion. Then the Federal Reserve Board moved from buying a few government bonds for banking purposes, to buying as many bonds as the Treasury wanted to sell at its own price. Miracle of miracles! The government spent and spent, but the people had more money too. When war came we scattered money all over the world, and still had more than before.

Bankers, however, know that bank credit backed by gold certificates and government bonds used for nonproductive purposes, is not the same thing as bank credit backed by gold and business activity. They have said little, perhaps because the Governors of the Reserve system gained the power in 1935 to remove officials or directors of private commercial banks who in their opinion did not "co-operate" in the government's monetary policy.

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John Reisner of the Agricultural Missions Foundation made a flying visit this year to the Protestant agricultural missions of Asia. He said on his return that even the peasants were hopeless. They no longer saw any reason why they should go on struggling.

For centuries politicians have been able to enjoy the exhilaration of war because the common people, especially the peasants, would always quickly repair the damage to material and to human wealth. Some healthy-mindedness in them saved them from urban disillusion and despair.

But the despair that has followed this last war is not sophisticated. The toiling millions of Asia, far out of reach of our newspapers and radios, have caught the sickness of our souls. Meantime, little men strut and pose as thinkers while they encourage the poison of inflation in the one nation on which all Western civilization depends.

A few men and women see our danger. The rest have yielded to that mental inflation which accompanies debasement of the currency. Fortunately, there are farsighted legislators in Congress. They still have the power to turn back from the abyss into which so many other governments have stumbled.

But Congress cannot cut expenditures by analyzing budgetary items. No executive will voluntarily surrender the spending power. It will always find interesting ways to give away money. So long as it has funds it can organize pressure groups to get more money. So the task before Congress is to cut off the government's pressure groups.

To recover control of the purse, Congress must earmark tax funds for interest and debt reduction, and for national defense. Then it can give the President a billion dollars and let him allocate it as best he can. This will mean an end of Federal education, Federal medicine, milk for babies, and destruction of potatoes. Altogether they have added nothing to the health or happiness of the American people. What "government" should do, state and local governments can do better.

The Federal Government would go back to its first duties, foreign policy and national defense, and it would still have plenty to do.

Congress could then show the public, by means of a Congressional investigation, the connection between our centralized banking, and our political centralization. While there is still time it could make plain what Montesquieu meant when he called John Law, the credit inflationist, "the greatest supporter of despotism that ever lived."

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Not Merely Gossip *A Supplement to* Human Events VOL. IV, NO. 36

By Frank C. Hanighen September 3, 1947

Two by-elections have reawakened the interest of political observers from the somnolence of the past month. On August 26, Charles E. Potter, Republican and a legless war veteran, was elected to Congress from Michigan's 11th District over Harold D. Beaton, Democrat. This district was traditionally Republican until the advent of the Roosevelt regime; it went Democratic in 1932, 1934 and 1936, then returned to the Republican column in 1938, where it has remained. Agricultural voters predominate and there is no important Labor machine. The vote was approximately 12,500 for Potter to 5,500 for Beaton, which represents a sharp percentage gain for the Republican ticket over the results of last November; Republicans can chalk the outcome down as encouraging.

GOP strength, however, faces a greater test in another Congressional by-election to be held September 9. The 8th Pennsylvania District has an election history similar to that of Michigan's 11th: traditionally Republican; switching to the Democrats in 1933; Republican since 1938. The recent death of Congressman Gerlach (Republican) left the vacancy. There is, however, an important difference which makes the contest keener and more significant than that in Michigan. There is a substantial industrial population and Labor has entered the campaign in a very lively way. The CIO aggressively, the AFofL mildly, support the Democratic candidate, Philip H. Storch, who calls for repeal of the Taft-Hartley Act.

The Republican candidate is Franklin Lichtenwalter, Speaker of the Pennsylvania House of Representatives. His chances are bright for there are many more registered Republican voters than Democratic. Observers believe Lichtenwalter will win, but are of the opinion that the real question is whether the Republicans can maintain the voting strength, which they showed last November, in the industrial sections of the district. Success or failure for the Democrat in those areas will have a bearing on Labor's renewed effort at the polls.

Two more by-elections, dates for which have so far not been set, will also attract attention. The death of Congressman Springer in the 10th Indiana and the resignation of Congressman Jones in the 4th Ohio have left two vacancies. Both these districts have election histories similar to those in Michigan and Pennsylvania. When the results of all four of these districts are finally assembled, they should make possible an intelligent estimate of Republican ability to maintain the strength which they displayed in last year's election.

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Secretary of the Treasury Snyder cast a shadow over the otherwise happy Pan-American Conference in Rio de Janeiro. Last spring, Latin Americans began to run short of the dollars they needed to buy United States goods. But, on July 15, sterling was made convertible into other currencies in current transactions, in accordance with the terms of a clause in the U.S. loan to Britain. This offered the Latin Americans an opportunity to convert pounds sterling, of which they had a plenitude, into dollars. The "run on the pound," (which was world-wide) however, led to the British financial crisis. A British delegation hastened in distress to Washington, and Snyder acted to "save Britain." On August 20, he agreed to a temporary suspension of the convertibility clause, thereby stopping the "run."

But the repercussions of his action on the Latin Americans were not happy. They could not now change their pounds into the dollars needed to buy Fords, refrigerators, machinery and other U.S. goods. This development fed the strong undercurrent of economic discussion at Rio, which Secretary Marshall sought to dam by

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saying that economic help for Latin America would have to wait on that for Europe. The southern republics now look to the next Pan-American Conference, to be held in Bogota next January, for "dollar relief."

As a matter of fact, much as Latin American Governments wanted dollars, they wanted even more the inter-American defense pact. As a result of the pact, they expect that the United States will sell them the arms which, for many of them, mean retention of political power. This was undoubtedly a big factor in creating the harmonious atmosphere of the Conference. Also, Argentina which was the center of opposition at other Conferences, found it advantageous to be obliging. That republic wants to be thoroughly reinstated in the "family of American nations" so as to qualify for its share of arms and economic assistance from the Colossus of the North. And Argentina is counting on playing a leading role in inter-American defense plans.

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When Mr. George Kennan, head of the State Department's policy planning, flew to Paris last week, some observers remarked that "the Marshall plan is dead." Reports from Paris said that the representatives of the 16 European nations, gathered there to compile their estimate of what Europe would need from America, had arrived at a figure close to $30 billion. This is about twice what the State Department has been contemplating. Indeed, the Department has been apprehensive even of $15 billions because of anticipated Congressional opposition. Kennan, therefore, was dispatched to Paris, presumably to instill caution in the European conferees.

It was, therefore, premature to regard the Marshall plan as dead. In the first place, there is no "plan," only a proposal. The first step proposed was the present 16-nation conference to add up the bill. The second step will be the presentation of the total to the Harriman Commission on National Resources which was designed to decide whether the sum is within the power of the United States to pay. Assuming that Mr. Kennan is successful in Paris, the Harriman Commission must then go to work. Inquiry in Washington discloses the fact that the Commision has done little work, indeed cannot accomplish much until Paris submits the bill. The main task will be examination of the Paris report. Members of the Commission doubt that their job can be finished before late in October.

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Colonel McCormick, publisher of the Chicago Tribune, is going to Tokyo towards the end of October, say newspaper reports, in order to persuade General MacArthur to run for the Presidency. These reports, however, are only partially accurate, according to well-informed sources. The Colonel is going to Tokyo, but not -- it is emphasized -- to talk the General into running. Indeed, it seems quite obvious that the famous publisher would never play the role of the suppliant. The doughty Colonel bends his knee to nobody.

He is, of course, interested in the 1948 race and he has some aversions, violent as is usual. He does not like Senator Vandenberg for his internationalism and Governor Stassen for the same reason. He does not regard Dewey kindly, having been disappointed with the way Dewey conducted his campaign in 1944. At present, the Tribune backs Senator Taft, but without much enthusiasm, for the Colonel thinks that the Ohioan compromises too much and, besides, has not enough strength to win the nomination. Fitfully, the Tribune favor shines on Speaker Joe Martin, but Joe has as yet attracted little backing throughout the country. Finally, the Colonel has his reservations about MacArthur. He is reluctant to support any military man for the Presidency, preferring a civilian. On the other hand, he respects the General's military ability and his conduct in Japan. And he can see the potential popularity of MacArthur as a candidate.

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To make a long story short, the Colonel is going to Tokyo to "look Mac over," no more, no less. He will listen to the General's ideas on many issues, study his personality. He will then be in a position to make up his mind whether MacArthur, despite his military status, deserves the backing of the Chicago Tribune.

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With economic disaster and rising party strife, too many British commentators are prone to blame someone or something, the Socialists or the capitalists, the new system or the old, etc., for their country's present plight. In Time and Tide (August 16), however, there is a columnist, Mr. J. H. Huizinga, who is refreshing -- if not encouraging -- because he dwells thoughtfully on national undercurrents and their possible resemblance to dangerous forces which have recently made history.

"Underneath all the noisy party strife, I seem to have heard for many months past, and on all sides, a rising undertone of anxiety about the nation, intense concern about the future of England; 'Mother England,' as the Socialist MP significantly called it in the crisis debate. In fact, so loud has this swelling subterranean rumble throbbed in my ears at times, that the encouragement I have derived from it has not always been unmixed with a certain anxiety. For supposing there is indeed, though as yet unseen, a strong national tide sweeping in, supposing that under the growing pressure of privation at home and impotence abroad this tide were to engulf all parties, or finally, supposing that events produced a leader who knew how to whip up such tides. What may not happen then? Great things, you will say, a resurgence of the glory that was Britain. I trust so.

"But what price glory? Or even what price economic salvation? That is the thought which sometimes worries me. Not only because, for the sake of economic survival, the nation has already consented to surrender a part of its freedom to go where it pleases and to work where it pleases; not only because love of country can be mobilized for the worst as well as the best of causes; but also because I cannot forget what once happened to another intensely proud and patriotic nation when it found itself down and almost out. Wild horses will not drag the name of this nation from my mouth. All I will say of it is that it was a nation filled with resentment at having lost a war even as Britain is filled with resentment at having lost the peace, weighed down by vast foreign debts even as Britain is carrying huge burdens of indebtedness, smarting under what it considered the vindictive injustice of the outside world even as Britain smarts under what it considers callous ingratitude."

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Herbert Hoover reiterates his belief that the United States should not have entered World War II, in an interview published in the current American Magazine. "My theory," said the former President (to quote the American) "is that, if we had kept out of the immediate conflict, we could have put our sword down on the table, with our economic resources intact, and made a decent peace when the time for peace-making came. I never believed Britain was in danger of defeat. When Germany attacked Russia, it made British victory possible. And we never would have been attacked by the Japanese if we had not given them provocation."

Keeping out of the war, indeed, was one of what the former President called his "three crusades." As the American reports it: "The first," Hoover said, "is anti-collectivism -- anti-collectivism in all its forms. The second was to keep us out of war. We succeeded in that until Pearl Harbor. Up to that moment, 90 per cent of the American people, Senators, and Congressmen would have voted against it. But then, of course, we all came in to win. The third is the question of relief and food for the suffering people of the world."

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Book Events

The Puritan Oligarchy, by Thomas Jefferson Wertenbaker. New York: Charles Scribner's Sons. $4.00

Professor Thomas Jefferson Wertenbaker's study of The Puritan Oligarchy is the third installment of his ambitious work on The Founding of American Civilization, the preceding volumes of which were devoted respectively to the middle and to the southern colonies. It is enough in the way of praise to say that this third volume equals, if it does not indeed surpass, the quality and interest of the others. Dr. Wertenbaker is one of those historians, rare enough in the Twentieth Century, who manage to reconcile a meticulous scholarship with a lucid and agreeable manner of prose. His general purpose in this series is, as I take it, to trace the genesis and evolution of those ideas, institutions, manners and attitudes of mind that we like to think of as distinctively and traditionally American. Since it is considered by many that the greatest single contribution to this tradition has been that of New England, The Puritan Oligarchy has on this account a heightened interest, although it is concerned entirely with the Massachusetts Bay Colony.

It is characteristic of Dr. Wertenbaker's method that he opens his work with a survey of the social and industrial life of the Sixteenth and early Seventeenth centuries in those Eastern English counties to which most of the Puritan colonists were native. He shows that this part of England was an early stronghold of the rising middle class, that the great wool-weaving industry was flourishing there and that the spread of Calvinistic doctrines had been greatly influenced by an influx of Flemish and Hugenot refugees. Congregationalism, however, had its origin as a constitutional theory of the Anglican Church and became only by degrees a separatist or schismatic movement.

Dr. Wertenbaker disposes with what seems utter finality of the legend that the settlement of Massachusetts was inspired by the ideal of religious freedom. What the Puritan fathers contemplated and sought to establish was a state and society fashioned strictly upon Scriptural specifications and sternly protected against contamination by heresy and superstition. Hence the use of military force against Maypole dancers; hence, too, the relentless persecutions of Baptists and Quakers and the banishment of Roger Williams and Mrs. Hutchinson. "It is surprising," observes the Professor, "that the Puritan authorities did not think of the concentration camp; had they herded the missionaries and their converts off to some remote spot on the frontier and kept them under strict guard where they could not 'testify' before the people, they might have had more success in preventing the 'infection.'"

But the absolute orthodoxy and rigid conformity which the clergy and magistrates demanded from all was one of the factors which served in the end to dethrone them, the unremitting watchfulness had the effect of gradually suffocating the early religious enthusiasm and of creating a gulf between private conviction and public observance. Other factors in the downfall of the oligarchy were the expansion of shipping and foreign trade, which made ideological isolation impossible, and the decay of the village method of agriculture that the Puritan planners had adapted from the English manorial system. All this tended to provide a favorable climate for the new gospels of the Age of Reason. Thus the celebrated Salem witch trials are interpreted by Dr. Wertenbaker as having been unconsciously inspired by the desire of the clergy to recover their fast-waning influence and to turn back a rising tide of diesm and rationalism.

In short, then, our Professor finds that those American principles, such as the separation of Church and State and the divorce of religion and public education, which had early manifestations in New England, have their inception not in Puritanism so much as in the revolt against it. -- J. M. Lalley

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